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MOVING TOWARDS WELFARE REFORM

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Once again welfare reform has become a major issue in American political life. In his 1986 State of the Union address, President Ronald Reagan drew attention to the problems of poverty and welfare in America by requesting the Domestic Policy Council to design a strategy for welfare reform, thus putting welfare back on the nation's agenda for the first time in a decade. A bipartisan consensus also appeared to exist for an historic overhaul of the nation's troubled welfare system. That consensus rests on three themes: giving states the flexibility to experiment with creative approaches to ending dependency; mandatory workfare requirements; and a crackdown on fathers who ignore their financial responsibilities.

Welfare, however, has always been an unpopular and divisive issue. Some blame poverty on failings of the economy or the educational system, others on deficient values and efforts of the poor. These disagreements have fueled arguments about what the government should do and should not do to reduce poverty, what the relative roles of federal and state governments should be, and what should be expected of welfare recipients.

Poverty Statistics Overstated

An analysis of welfare and poverty in America should begin with the fact that no two poor individuals or families face the same circumstances or have exactly the same needs. Any measure of poverty is necessarily arbitrary, and the number of people who are deemed to be poor depends on the yardstick used. Nonetheless, such measures are useful, both as guides to how economic hardship is distributed within the population and as a means of judging progress towards alleviating it. For over 20 years the official poverty measure has been based on a 1955 national Household Food Consumption Survey that judged each member of a family to be poor if the family had pretax cash income less than three times the cost of a nutritionally adequate diet. From this base, the federal government calculated how much income a family would require to meet all of its basic needs. The result is the "poverty level," which is adjusted to reflect family size, age and price level changes. For 1987, the Census Bureau established that a family of four receiving less than $11,200 in cash income ($7,133 for a family of two) was counted as poor.

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These poverty thresholds are then used to determine the poverty rate: the percentage of persons with incomes below the official poverty level. The poverty rate in 1953 was 26.2 percent, then fell sharply to an historic low of 11.1 percent in 1973, and stayed in the range of 11.2 to 12.3 percent through 1979. The largest one year increase in poverty occurred from 1979 to 1980--a 12 percent increase. In 1986, it stood at 13.6 percent (see Table 1).

TABLE 1

POVERTY DATA FOR ALL RACES
1959-1986

Years	Number Below Poverty Level (millions)	Percent Below Poverty Level
1959	39.5	22.4
1960	39.9	22.2
1961	39.6	21.9
1962	38.6	21.0
1963	39.4	19.5
1964	36.1	19.0
1965	33.2	17.3
1966	28.5	14.7
1967	27.8	14.2
1968	25.4	12.8
1969	24.1	12.1
1970	25.4	12.6
1971	25.6	12.5
1972	24.5	11.9
1973	22.9	11.1
1974	23.4	11.2
1975	25.9	12.3
1976	25.0	11.8
1977	24.7	11.6
1978	24.5	11.4
1979	26.1	11.7
1980	29.3	13.0
1981	31.8	14.0
1982	34.4	15.0
1983	35.3	15.2
1984	33.7	14.4
1985	33.1	14.0
1986	32.4	13.6

Source: U.S. Bureau of the Census, *Current Population Reports.*

As accurate measures of how many Americans are poor, the poverty statistics have major limitations that tend to overstate the incidence of poverty. Official poverty numbers do not include all income received by poor individuals such as noncash government benefits (Food Stamps, Medicare and housing subsidies). For the past 20 years, noncash benefits have multiplied, accounting for 76 percent of the value of all benefits (compared to 35 percent in 1964), amounting to annual expenditures of $99.8 billion for low-income Americans. In addition, assets are also not

counted, therefore, someone who is unemployed for a year but still owns a home and has a large savings account is counted among the poor.

Official poverty statistics also compare pre-tax income with poverty thresholds based on after-tax incomes. The current treatment of taxes in measuring poverty fails to distinguish between the different resource needs of families with and without tax liabilities. For instance, two families with the same pre-tax incomes will not be equally well off if one has income from earnings that are subject to payroll and income taxes while the other has income from untaxed transfer payments. Finally, census surveys of income rely on voluntary responses and income is often understated. Nevertheless, while official statistics may overstate poverty, it is still clear that poverty and welfare remain a problem.

Rising Welfare Rolls

Since their inception, federal public assistance programs have stressed the importance of work that leads to self-reliance and financial independence. However, the evidence shows that far from succeeding in moving recipients off welfare and into self-sufficiency, public aid programs are laced with incentives which encourage long-term dependency.

Nearly one-quarter of U.S. families without parents at work are poor. By contrast, among families whose head of household works full time, only 4 percent live in poverty. The same is true of female-headed families, which are historically one of the poorest segments of society: less than one in ten such families remain in poverty if the mother works full time. Currently, the Aid to Families with Dependent Children program, the heart of America's welfare system, (AFDC provides cash assistance to low income single parent families, 90 percent of which are headed by females), supports 3.8 million of the 6 million female-headed families with children in the U.S. While AFDC is often depicted as a temporary relief program, the evidence proves otherwise: intermittent but prolonged welfare dependence is the norm for mothers on welfare. Since welfare payments are made only on the basis of children dependent on one parent, the AFDC program attracts women into single parenthood. Among women entering the welfare rolls for the first time, 70 percent remain for two years or longer; the average stay is nearly 7 years. Of the women currently on the welfare rolls, nearly two-thirds can be expected to remain on welfare for eight years or more, and the average period on welfare is 11.6 years.

In January 1987, the average AFDC benefit for a mother with two children and no other cash income was $354 per month. This ranged from a high of $749 in Alaska to a low of $118 in Alabama. And since 1970, AFDC benefits have kept pace with inflation in only 3 states--California, Maine and Wisconsin. Benefits have declined, in real terms, in all of the remaining states, and on a per capita basis, the average value of AFDC benefits has fallen by 16 percent since 1970. In addition, according to a recent Congressional Budget Office (CBO) study, as the number of female-headed households have increased, federal expenditures on AFDC have edged upwards, from $7.8 billion in 1982 to $9 billion in 1985.

Today's Welfare System

While it is essential that welfare assistance be provided for the poor through categorical programs, a major problem with the current system is that 59 welfare programs are scattered over several federal agencies. As a result, total spending on welfare assistance is virtually unknown. Indeed, some estimates claim that federal and state governments spent over $132 billion in fiscal year 1985. But when forty other federal low income assistance programs are added, total spending, including loans, came to over $150 billion. Adding matching funds increased the total to over $160 billion. As Jonathan Hobbs points out in the book *Agenda 83*: "Welfare costs are spread throughout the budget, in hundreds of line items funding specific kinds of benefits...In fact, there

may be several duplicative or complementary benefits from other programs available to the same group of recipients."

The 59 major federal programs comprise a centralized welfare system that is inscribed in over 6,000 pages of federal laws managed by eight major federal departments, through numerous agencies in the 50 states, and by thousands of welfare workers. The Census Bureau estimates that over 52 million Americans, nearly 20 percent of the population, benefit from some welfare program during a single year. Clearly, the large array of programs makes it possible for those knowledgeable of the system to benefit significantly and have a higher real standard of living than many who work.

Most of the spending on welfare is concentrated within five key programs: AFDC, Supplemental Security Income, Medicaid, Food Stamps and Housing Assistance. Of the main federal programs, 10 provide cash assistance, totalling $32.3 billion. The largest of these programs, at $14.8 billion is AFDC, which pays monthly benefits to nearly 4 million families consisting of 11 million persons; this is followed by Supplemental Security Income (SSI) which provides $10.9 billion to over 4 million aged, blind or disabled persons.

The noncash benefits consist of three major programs: six health programs, totalling $48.6 billion, where Medicaid, at $41.2 billion, is the largest and fastest growing low-income program serving over 23 million persons; twelve food assistance programs which spend $20.4 billion, with Food Stamps benefiting 20 million persons every month at an annual cost of $12.5 billion; and nine housing assistance programs which total $13.7 billion a year. In addition, nine job training programs total $4 billion a year, and eight education programs spend $8.3 billion annually. The remaining low-income programs each spend over $20 billion and provide a variety of services.

Creating the System

But America's welfare system was not always so elaborate and centralized. Only a few decades ago the federal government played a small role in providing public assistance. But the Depression of the 1930s changed all that. The Social Security Act of 1935, which contained the first major federal public assistance programs, forced the government to provide social insurance for the elderly and the unemployed. In addition, the Act initiated the joint federal-state programs of Old Age Assistance, Aid to the Blind and Aid to Dependent Children. These programs retained a conceptual link to the ideal of self-reliance by directing aid to those who could not provide for themselves--the aged, the disabled and children deprived of the support of a parent.

In the 1960s, federal welfare spending expanded dramatically during Lyndon Johnson's War on Poverty. The Economic Opportunity Act of 1964, the centerpiece of the War on Poverty, introduced an array of new public programs--education, training and service--designed to attack the root causes of poverty. Later, more programs--Medicaid, Food Stamps, and Housing Assistance Payments--expanded assistance further. Virtually anyone with limited income could qualify for some sort of public assistance. Accepting welfare payments clearly became a more attractive offer than taking a job. Thus, the expansion in noncash benefits created a system that would maintain large numbers of persons below the poverty level, never raising them above it.

These low-income benefit programs also represented a significant shift in the nature of public assistance. Cash benefits began to be replaced by food, medical care, housing and other noncash benefits. In 1960, 75 percent of all welfare was in the form of cash; by 1985 only 24 percent was in that form. This shift is considered important because non-cash benefits diminish personal choice and self-responsibility among welfare recipients, forcing them to become more dependent on the rules and decisions of others. In addition, non-cash benefits are not counted as income in the measurement of poverty rates, thus understating the poverty rate.

Welfare Spending Skyrockets

The War on Poverty also produced an important shift in the public perception of welfare. What had been viewed as public aid began to be seen as public entitlement. And while the programs still invoked self-reliance as an ideal, they introduced rules that undermined it in practice. As more Americans became eligible for welfare, federal spending skyrocketed, from $21 billion (in constant 1985 dollars) in 1960 to $62.2 billion a decade later, $121.8 billion in 1976, $132.2 billion in 1985 and about $140 billion in 1986.

Between 1960 and 1985, federal and required state spending on major federal welfare programs grew by 525 percent. And cash assistance rose by 105 percent in real terms, while noncash benefits soared by 1,760 percent. This explosion in welfare spending continued through 1976, then stabilized and continued to rise at a slower pace in the 1980s. While outlays for some individual programs have fallen since 1980, the real growth in total benefits has continued. Spending has grown, in real terms, by 7.6 percent a year since 1960 and one percent per year since 1981.

This growth momentum was primarily the result of Congress' liberal expansion of public assistance programs during 1970-75. This six year period contained two severe economic recessions and intervening years of rapid inflation. The low-income programs unleashed at that time created a spending momentum that would continue until the early 1980s. In each recession, program eligibility was liberalized and benefits increased. This was done, in large part, by transforming discretionary programs into open-ended entitlement programs. Between 1970 and 1975, six of the nine nutrition programs, including Food Stamps and the school lunch program, were converted to entitlements and indexed to inflation. And, in the case of Medicaid, the entitlement was expanded to include services provided by intermediate care facilities; this expansion changed the nature of Medicaid, and accounted for 40 percent of the tripling of Medicaid costs from 1972-1981. Overall, entitlement programs accounted for 77 percent of the total growth in low income benefit costs during the period 1970-81.

Welfare Creates Poverty

Work-related programs for recipients of public assistance (workfare)--including job search assistance, training and education, unpaid work experience--have received considerable attention in recent years. Perspectives on the proper relationship between work and welfare have changed substantially. For instance, Title 4 of the Social Security Act of 1935 contained no mention of work for welfare recipients. But by 1962, the Community Work and Training Program (CWTP) allowed states to require work from AFDC recipients in return for their benefits. Only 13 states participated in the program and its authorization expired in 1967. Again, this was a result of the welfare programs of the 1960s which caused two serious problems. First, the offer of welfare payments to those people who did not work created a disincentive to work. And, the AFDC program encouraged fathers to leave home, since benefits are paid to female head of households.

Because of the work disincentives inherent in the system, the Work Incentive Program (WIN) was enacted by Congress to provide welfare recipients with an incentive to obtain work. The federal government provided 90 percent of the funds for WIN, and states paid the remaining 10 percent. Before WIN, each dollar earned meant welfare was reduced by a dollar, thereby putting a 100 percent tax on money earned by working. Thus, an "earnings disregard" was included in WIN wherein the recipient could disregard the first $30 of their earnings plus one-third of the remainder of their earnings without a reduction in welfare benefits. The intent was to induce AFDC recipients to work, but the actual effect was to induce families with relatively higher incomes to remain on welfare. During the first 21 months of the WIN program, the nation's welfare rolls swelled by 641,000 persons and only 13,000 Americans left welfare because of the program. And in 1985, it is estimated that WIN moved only 130,000 people off welfare, or about one percent of those on AFDC.

Many studies have shown that high AFDC benefit levels discourage work, and "earnings disregards" are not an effective way of encouraging work.

Lowell Gallaway and Richard Vedder of Ohio University have put forth the theory that as welfare expenditures increase, two results occur: for some people there is an income enhancing effect that tends to move them out of poverty; for others there is a disincentive effect which causes them to reduce the amount of their work effort and earned income, shifting them below the poverty level of income. The greater the availability of welfare benefits, the stronger will be the disincentive effects. A number of studies in the *Journal of Human Resources* and the *Monthly Labor Review*, using individual rather than aggregate data, confirm the importance of disincentives. Perhaps the most significant are the various Income Maintenance experiments that have been funded by the federal government. These were designed to specifically explore the nature of low-income people's labor market responses when placed in a situation where they are receiving direct money payments that do not depend on the amount of income they earn through work activity. The results show that direct money income payments tended to reduce the volume of work effort of the participants.

Taken collectively, these various analyses make a compelling case for the argument that welfare benefits are creating incentives for low income people to reduce their work effort. Welfare is creating poverty, not eliminating it.

Further Workfare Incentives

Legislation enacted in 1981 and 1982 authorized states to establish alternatives to WIN and to require, at each state's option, that certain registrants participate in job search assistance and workfare. As with other AFDC administrative costs, the federal government reimburses states for 50 percent of the costs of these activities. In response, many states have experimented with new ways of providing work-related activities to AFDC recipients.

In effect, the Reagan administration introduced key changes in welfare policy through the Omnibus Budget Reconciliation Act of 1981 (OBRA), which essentially eliminated the WIN earnings disregards and caused welfare rolls to shrink. OBRA established three workfare policies: (1) the WIN Demonstration program, where AFDC beneficiaries may be required by the state to participate in full-time work programs, thus giving states more flexibility in designing and operating their welfare work programs; (2) the Community Work Experience Program (CWEP) where a welfare recipient can be required to participate in workfare permanently but the number of hours worked per month is limited and often less than 20 hours per week, thus requiring states to operate mandatory work programs for AFDC recipients; (3) the Grant Diversion program (wage supplementation) where the recipient's welfare grant is diverted to a private employer to pay for up to half of the recipient's wage.

Welfare mothers with children under age six generally are exempt from work requirements, although 11 states have obtained waivers from federal rules to make participation mandatory for AFDC mothers with children over age three. About 39 states currently operate new work programs under the OBRA provisions. These programs, widely acclaimed as successful, show that low budget job search assistance, and training and community work experience projects can increase the employability and earnings of some welfare recipients. A recent CBO study found that nearly all work-related programs increase the average earnings of economically disadvantaged female participants by moderate amounts. Evaluations by the Manpower Demonstration Research Corporation (MDRC) of workfare experiments in Arkansas, California, Maryland, Virginia and West Virginia indicate that carefully designed work-related programs for AFDC recipients can be successful.

Massachusetts' Employment Training program has been the most ambitious welfare to work transition program. And Illinois has introduced Project Chance, a job and training program aimed

at the 120,000 female welfare recipients in the state who have children under age six. North Carolina requires a "social contract" between recipients and case workers to guide the transition to full-time employment.

The costs to governments of operating work-related programs for welfare recipients are offset to some extent by savings generated from reduced outlays for AFDC, Medicaid and other transfer programs for the participants. According to MDRC, the findings from recent state workfare demonstrations show that participants reduced their use of transfer payments and increased their tax payments by enough to offset operating costs within five years. However, workfare programs can also swallow up federal funds without producing any noticeable results. Evidence by Jean Grossman and Audrey Mirksy in *A Survey of Recent Programs Designed to Reduce Long-Term Welfare Dependency* shows that the workfare programs of the late 1970s cost $26,000 per participant but produced no greater results than the current job search programs costing a few hundred dollars.

Welfare Reform Legislation

In considering welfare reform legislation, Congress must address several issues. Society's consensus should establish national goals for welfare assistance, such as access to adequate housing and education. States should be required to meet these goals through effective welfare assistance programs; it is states, not the federal government which have the primary governmental responsibility to ensure that adequate welfare programs are available. Congress might require states to provide specific types of activities, such as funds for education and training, or leave all decisions about workfare activities up to the individual states. For instance, Stuart Butler of the Heritage Foundation found that replacing in-kind services with vouchers turns poor people into powerful consumers and forces private providers to become more efficient. Food stamps and student loans are examples of existing voucher programs. Welfare policies should also be more employment-oriented. Welfare reform should emphasize tighter eligibility standards that encourage individuals to take the jobs available to them.

Current welfare reform bills in Congress require the states, for the first time, to set up work, job-training and other proposals to help single parents shift from the AFDC welfare rolls to payrolls. The House bill would provide federal financial incentives to spur states to raise welfare benefit levels, a principle which is endorsed by Senator Moynihan (D-NY), the chief sponsor of the Senate legislation. Yet higher benefits simply make work even less attractive and encourage recipients to become more dependent. Indeed, during the last decade, the number of children in poverty in states with low AFDC benefits has fallen, while the number of poor children in high benefit states has increased significantly. Robert Rector of the Heritage Foundation claims that raising welfare benefits by 20 percent nationwide could expand the AFDC population by one-third, adding one million families to the welfare rolls, increase the number of female-headed families by 20 percent, and increase the divorce rate among young families by 66 percent. Another idea in the House proposal is to require all states to establish AFDC for intact two-parent families (AFDC-UP). But including two parent families in AFDC makes more families accustomed to welfare dependency.

In addition, the House legislation and Senator Moynihan's proposal does not include the decentralization of the welfare system, and limits states' ability to devise their own experimental welfare programs. Moreover, the costs associated with both bills would be appreciable--the House bill raises federal spending by $5.2 billion over 5 years; and the Senate bill raises it by $2.3 billion. Neither bill, however, contains a national minimum benefit level for families receiving AFDC benefits to overcome large disparities in benefits between states.

Senator Moynihan's welfare reform bill also includes provisions such as providing public funds for education and training for welfare recipients, requiring absent parents to support their children, and forcing women on welfare to take part in a job search program unless they have a child under three years of age.

The House Republican alternative, sponsored by Congressman Hank Brown (R-Colo.), offers a welfare plan that would cost the federal government $1.4 billion over five years. The principal advantage of Brown's proposal over the Democratic bills is that it does not increase benefits. The total federal appropriations for the training and placement programs, plus costs of necessary child care, would be limited to $500 million for the first year, and after that to such sums as Congress appropriates. In addition, Congressman Brown's bill reduces barriers to work by strengthening employment, training and child care opportunities for AFDC recipients; it tightens the nation's child support laws; it provides flexibility to states to reduce administrative costs and consolidate programs; and it provides federal assistance to states that succeed in placing recipients in the labor force.

The Administration's current welfare program--the Greater Opportunities Through Work program (GROW)--is its most ambitious to date. GROW would lower the exemption from work activities, which currently applies to mothers with children under six years of age, to those with children under six months; it would mandate large-scale participation in work activities by welfare beneficiaries in all states; and would provide uncapped supporting federal funds for job search and workfare, job-related expenses and child care at a 50 percent matching rate. Finally, the Child Support Enforcement Program will seek increased payments by absent parents in support of their children.

In each of these proposals, the net impact on the federal budget would depend, in part, on how many states respond to the requirements and incentives established and on the extent to which the program costs are offset by reductions in outlays for AFDC and other transfer programs. Increasing the matching rate or the range of eligible activities could significantly increase federal outlays, creating larger budget deficits in the near future.

Conclusion

Without question, the need for extensive and substantive welfare reform is long overdue. The tragic result of the government's well-intended but misdirected efforts has been the creation of a welfare "subclass" which confirms the fears of President Franklin Delano Roosevelt when he remarked in 1935 that "continued dependence upon relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber...(It is) a narcotic, a subtle destroyer of the human spirit."

The current welfare system provides handouts that harm the poor. By removing the normal obligation to support self and family, welfare undermines the personal discipline needed for work and participation in society. The welfare programs have also had a disastrous effect on two fundamental American values: the work ethic and family unity. Clearly, the government has a moral responsibility to correct the defects in its current welfare policies that destroy the incentive to work for those that possess the ability to work. Workfare, by restoring the welfare recipient's obligation to contribute to his own support and that of his family's is not only fair to the rest of society, it is essential to the well-being of the individual.